

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 L-03 H-02

NSC-05 SS-15 STR-04 CEA-01 PRS-01 PA-02 SAJ-01 /121 W

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R 151654Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2177

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 13292

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 14)

1. FOREIGN EXCHANGE MARKET: THE SPOT DOLLAR REACHED
ANOTHER HIGH ON AUGUST 11 - THE HIGHEST SINCE THE
B BEGINNING OF LAST OCTOBER. DURING THE REPORTING
WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS

(DISCOUNTS IN PCT. P.A.)

SPOT DOLLARS ONE-MONTH THREE-MONTH

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AUGUST 7 DM 2.5828 -3.7 -3.8

| | | | |
|----|--------|------|------|
| 8 | 2.5826 | -4.7 | -4.1 |
| 11 | 2.5921 | -3.9 | -3.9 |
| 12 | 2.5844 | -4.0 | -4.0 |
| 13 | 2.5875 | -3.5 | -3.8 |
| 14 | 2.5795 | -4.1 | -3.9 |

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY. THE SWEDISH CROWN WAS AT ITS UPPER INTERVENTION POINT WHILE ALL OTHER FLOAT CURRENCIES REMAINED BELOW.

2. MONEY MARKET: THE GERMAN MONEY MARKET EASED THROUGHOUT THE WEEK WITH THE CALL MONEY RATE DECLINING TO 1 PERCENT AND BELOW. DURING THE REPORTING WEEK FRANKFURT FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

| | | | |
|----------|---------|---------|---------|
| AUGUST 7 | 1.8-2.2 | 3.6-3.9 | 3.8-4.1 |
| 8 | 0.7-1.3 | 2.8-3.1 | 3.8-4.1 |
| 11 | 0.9-1.1 | 2.8-3.2 | 3.6-4.0 |
| 12 | 0.9-1.1 | 2.8-3.2 | 3.6-4.0 |
| 13 | 0.8-1.0 | 2.7-3.0 | 3.7-4.0 |
| 14 | 0.5-1.0 | 2.5-3.0 | 3.5-4.0 |

3. BUNDESBANK FOREIGN POSITION: IN THE FOURTH WEEK OF JULY (JULY 24-31) THE BUNDESBANK'S FOREIGN POSITION DECLINED BY DM 0.3 BILLION TO DM 80.5 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 313 MILLION AND GROSS LIABILITIES BY DM 12 MILLION. IN THE FIRST WEEK OF AUGUST (AUGUST 1-7) THE BUNDESBANK'S FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 80.1 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 125 MILLION WHILE GROSS LIABILITIES INCREASED BY ABOUT DM 275 MILLION.

4. BANK LIQUIDITY: IN THE LAST WEEK OF JULY BANK LIQUIDITY INCREASED BY DM 0.2 BILLION. FACTORS INCREASING LIQUIDITY WERE A LARGE DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK (DM 7.7 BILLION) AND BUNDESBANK OPEN MARKET PURCHASES OF PUBLIC BONDS UNCLASSIFIED

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(DM 1.4 BILLION). OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 1.2 BILLION. LIQUIDITY WAS REDUCED BY AN INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 5.0 BILLION), THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 3.8 BILLION) AND THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSITION. THE BANKS USED THE INCREASED LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS

BY DM 0.7 BILLION AND LOMBARD BORROWINGS BY DM 0.2
BILLION. IN THE FIRST WEEK OF AUGUST BANK LIQUIDITY
INCREASED BY DM 1.5 BILLION. FACTORS INCREASING
LIQUIDITY WERE DECLINES IN OFFICIAL NET ASSETS HELD AT
THE BUNDESBANK (DM 3.1 BILLION), IN CURRENCY IN
CIRCULATION (DM 1.1 BILLION) AND BUNDESBANK'S OPEN
MARKET PURCHASES OF PUBLIC BONDS (DM 0.1 BILLION).
LIQUIDITY WAS REDUCED BY AN INCREASE IN THE BANKS'
HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 1.0 BILLION).

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OTHER FACTORS, INCLUDING THE ABOVE-MENTIONED DECLINE
IN THE BUNDESBANK'S FOREIGN POSITION REDUCED LIQUIDITY
BY DM 1.8 BILLION. THE BANKS USED THE INCREASED
LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 0.7
BILLION.

5. BOND MARKET: DURING THE REPORTING WEEK FAZ AVERAGE
YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS
DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT
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| | | | |
|----------|------|------|------|
| AUGUST 7 | 8.83 | 8.86 | 8.38 |
| 8 | 8.81 | 8.86 | 8.37 |
| 11 | 8.80 | 8.86 | 8.36 |
| 12 | 8.77 | 8.86 | 8.36 |
| 13 | 8.79 | 8.87 | 8.39 |
| 14 | 8.78 | 8.88 | 8.37 |

WITH THE EXCEPTION OF AUGUST 14 THE BUNDESBANK HAS
PURCHASED ABOUT DM 10 MILLION PER DAY ON THE GERMAN
BOND MARKET.
CASH

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Disposition Event:
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